Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554

In the Matter of)	
2018 Quadrennial Regulatory Review –)	MB Docket No. 18-349
Review of the Commission's Broadcast)	
Ownership Rules and Other Rules Adopted)	
Pursuant to Section 202 of the)	
Telecommunications Act of 1996)	

REPLY COMMENTS OF NEXSTAR BROADCASTING, INC.

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EXECUTIVE SUMMARY

While the marketplace for distribution of video programming is evolving at an historic pace, the FCC's media ownership regulations remain stuck in a bygone era in which broadcast television was the first and only choice for viewers and local advertisers. Today, consumers of video programming can access content over-the-air, on cable and satellite, from over-the-top distributors, from direct-to-consumer streaming services, and more. Advertisers seeking to reach consumers, meanwhile, have a plethora of options offering a wide variety of price points and levels of interactivity. Television stations represent just one of many options for viewers and advertisers alike.

These underlying facts about the status of the video distribution marketplace are not in dispute. The same competition rationale that may, at one time, have justified restricting local television station ownership is outdated and even counterproductive today. Therefore, in order to fulfill its statutory mandate to eliminate regulations that are no longer "necessary in the public interest as a result of competition," the Commission must account for the rapid changes in the video distribution marketplace.

In particular, the FCC should eliminate the presumptive restriction on ownership of two of the top four rated stations in a market. The so-called Top-Four Prohibition creates an unnecessary and arbitrary burden on broadcasters' ability to obtain operating efficiencies that allow them to deliver more comprehensive news and information programming and the most-desired entertainment programming in an era of fierce competition for viewers, advertising dollars, and high-quality content. As a result of the Top-Four Prohibition, broadcasters must compete with increasingly competitive—but unregulated as to ownership—cable and satellite video distributors, cable advertising interconnects, cable program networks, and Internet-based services with one

hand tied behind their back. The record contains no support for preserving this artificial, contentbased restriction, and the Commission should fulfill its statutory duty by eliminating it.

At the same time, the FCC must resist calls by some commenters to extend media ownership regulations to multicast streams, LPTV stations, and satellite stations. The Commission's long-recognized policy rationales for not attributing ownership to those services remain unchanged: they provide a substantial expansion of free, over-the-air services to underserved populations without the corresponding benefits available to full-power stations. Any effort by the Commission to attribute ownership of these services based solely on their programming content would be unjustified and constitute an affront to the First Amendment rights of broadcasters.

In taking account of the rapid evolution in the video distribution marketplace, the FCC must ease the ability of broadcasters to provide the valuable programming that their local viewers desire, and avoid erecting any new barriers that will disserve the public interest.

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Nexstar Broadcasting, Inc. ("Nexstar") submits these reply comments in response to the Federal Communications Commission's ("FCC" or "Commission") Notice of Proposed Rulemaking in the above-captioned proceeding.¹ Based on initial comments from Nexstar and others, it is clear that the FCC—in furtherance of its statutory duty to eliminate regulations that no longer remain "necessary in the public interest"—must account for rapid changes in the media marketplace by removing unnecessary restrictions on local television ownership, such as the Top-Four Prohibition. At the same time, the Commission should resist efforts by some multichannel video programming distributors ("MVPDs") and Special Interest Groups ("SIGs") to coopt this proceeding to address issues relating to retransmission consent that the Commission recently resolved in other proceedings.

¹ 2018 Quadrennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996 et al., FCC 18-179, MB Docket No. 18-349 (rel. Dec. 13, 2018) ("NPRM").

I. The Record Overwhelmingly Supports Modifying The Commission's Competition Analysis To Reflect The Broad Competition In The Advertising And Video Marketplaces.

The record contains abundant evidence that the media marketplace is undergoing transformative changes that render the underpinnings of prior media ownership proceedings obsolete. As Nexstar and others established in their comments, broadcast television stations face fierce competition for viewers and advertising dollars from a multitude of advertising sources and video distribution services. This competition has intensified and accelerated in recent years, and particularly since the most recent quadrennial review.² The record demonstrates that this competition takes many forms. In particular, advertisers today distribute shrinking advertising budgets across an increasing number of non-broadcast platforms, including cable, satellite, the Internet, social media, and others.³ Moreover, there has been a vast proliferation of video programming alternatives to broadcast television, including not only traditional MVPDs but a plethora of new online video distributors and streaming options.⁴ As the NAB correctly observed,

² See generally Comments of Nexstar Broadcasting, Inc., MB Docket No. 18-349 at 5-9 (Apr. 29, 2019) ("Nexstar Comments"); Comments of the National Association of Broadcasters, MB Docket Nos. 18-349; 17-289 at 43-57 (Apr. 29, 2019) ("NAB Comments"); Comments of Gray Television, Inc., MB Docket No. 18-349 at 9-10 (Apr. 29, 2019) ("Gray Comments"); Comments of Meredith Corp., MB Docket No. 18-349 at 1-2 (Apr. 29, 2019) ("Meredith Comments"); Comments of News-Press & Gazette, MB Docket No. 18-349 at 2-4 (Apr. 29, 2019) ("NPG Comments").

³ See Gray Comments at 2; Meredith Comments at 1-2 ("With the advent of the Internet, social media, and other platforms, local advertising dollars have moved to non-broadcast platforms."); NAB Comments at 2 ("Advertisers have shifted ad expenditures toward online and mobile outlets, at the expense of traditional media, which to date have lacked an equivalent ability to target ads and track consumer response."), 3-4 ("Online and mobile ad vehicles take a greater share of local ad revenues every year, rising from niche players to dominance in a decade."), 50-54.

⁴ See Gray Comments at 9-10 (describing how broadcasters face more competition than ever before, including cable and satellite operators, hundreds of online video services, social media platforms, "and a rapidly growing array of OTT and vMVPD providers"); NAB Comments at 1 ("Consumers now access content delivered via a range of devices and from multifarious sources, including over-the-air (OTA) radio and TV, satellite radio, pay-TV providers, podcasts and hundreds of online audio and video services."), 3 ("Basic cable's viewing shares surpassed broadcast's share by the early 2000s, and now both broadcast TV stations and traditional pay-TV providers are losing viewers at an accelerating rate to online options."), 43-49; NPG Comments at 2-3.

the Communications Act "require[s] the FCC's ownership rules to reflect the full range of media and advertising market participants and their competitive effect on broadcast outlets."⁵

Broadcasters are not alone in acknowledging the changing dynamics in the video programming marketplace. At a recent Department of Justice workshop on "Competition in Television and Digital Advertising," Facebook's Vice President-Business Product Marketing, Ty Ahmad-Taylor, described his service as "a likely substitute or swap for your attention." At the same event, Comcast Cable Advertising President Marcien Jenckes explained that "[t]here isn't such a thing as television over here and digital over there." Rather, "[a]ny platform that can be used to reach a particular audience is potentially a substitute for another platform." Indeed, the comments in this proceeding in support of retaining the existing television ownership rules by a group of independent cable programmers—whose obvious interest is to attempt to shift the marketplace balance in their favor—highlights the intense competition for eyeballs and advertising dollars.⁹

The Commission itself is poised to describe the video programming marketplace as "highly competitive" in its forthcoming Report and Order that will do away with the cable leased access rules, noting that "changes in the marketplace have dramatically increased diversity and competition in the video programming market."¹⁰ The draft order explains that "[t]he video

⁵ See NAB Comments at 4.

⁶ Monty Tayloe, Facebook, Comcast Side With Broadcasters on Ad Competition, Communications Daily (May 6, 2019).

⁷ *Id*.

⁸ DOJ Pushed to View Digital Ads Just the Same as Broadcast/Cable Promos, Cablefax (May 6, 2019), available at http://www.cablefax.com/regulation/doj-pushed-to-view-digital-ads-just-the-same-as-broadcastcable-promos.

⁹ See generally Comments of RIDE Television Network, NAVTV Motorsports Network, Cinemoi, and beIN SPORTS, MB Docket No. 18-349 at 11-13 (Apr. 29, 2019) ("Independent Programmers' Comments").

¹⁰ In the Matter of Leased Commercial Access; Modernization of Media Regulation Initiative, Draft Report and Order and Further Notice of Proposed Rulemaking, MB Docket Nos. 07-42; 17-105, FCC-CIRC1906-02 ¶¶ 13, 39 (rel. May 16, 2019) ("Draft Leased Access R&O").

marketplace has changed significantly" in recent years and "today a wide variety of media platforms are available to programmers, including in particular online platforms that creators can use to distribute their content for free." It goes on to observe that "[m]edia platforms, including online platforms that programmers can utilize for free to distribute their content, have multiplied. As a result, consumers are able to access video programming via means other than traditional broadcast and cable television, and the Internet is widely available for this purpose." It would be arbitrary and capricious for the FCC, in the context of its cable rules, to rely on "significant changes in the video marketplace" to "remove unnecessary requirements that can impede competition," while failing to account for those same "dramatic changes in technology and the marketplace for the distribution of programming.

Although some commenters in this proceeding urge the Commission to ignore competitive realities when defining the market for evaluating broadcast ownership restrictions, they provide nothing more than content-based justifications for why broadcasting is unique. These parties do not dispute that broadcasters face rapidly increasing competition for viewers and advertising dollars from other, non-broadcast, sources. Rather, they ask the FCC to ignore that competition and handicap broadcasters solely because broadcasters do a better job of connecting with their local communities than other video programming providers. To hamstring broadcasters on this

¹¹ *Id*. ¶ 2.

¹² *Id*. ¶ 10.

¹³ *Id.* ¶ 15.

¹⁴ *Id*. ¶ 40.

¹⁵ See, e.g., South Shore Hosp., Inc. v. Thompson, 308 F.3d 91, 103 (1st Cir.2002) ("[P]atently inconsistent applications of agency standards to similar situations are by definition arbitrary."); Zhao v. U.S. Dep't of Justice, 265 F.3d 83, 95 (2d Cir. 2001).

¹⁶ See Comments of Free Press, MB Docket No. 18-349 at 11-13 (Apr. 29, 2019) (describing the local content produced by broadcasters); Comments of Leadership Conference on Civil and Human Rights, MB Docket No. 18-349 at 5-8 (Apr. 29, 2019) ("LCCHR Comments").

basis is counterproductive and against the public interest. As NAB explained, "[t]he economic necessity of attracting viewers – and advertisers – is a far stronger incentive for TV stations to offer programming, including local news, sports and weather, than the incentive any FCC structural ownership rule could provide." It would be a perverse result to single out broadcasters, based on their unique local service, for regulation that affirmatively hampers their ability to provide that local service competitively and effectively. Moreover, accepting the positions of those seeking to maintain an antiquated view of the relevant market based upon the content that broadcasters offer to local communities raises serious First Amendment questions. ¹⁸

II. The Factual Record Requires Eliminating The Top-Four Prohibition.

The record overwhelmingly supports elimination of the existing Top-Four Prohibition, which needlessly penalizes successful television stations and prevents combinations that are in the public interest. The evidence convincingly demonstrates that combining two of the top four stations in a market does not harm, and instead serves to promote, localism and competition. As Nexstar explained in its opening comments, the cost of producing quality news and other local programming can be prohibitive – even for one of the top stations in a market.¹⁹ When stations are commonly owned, they benefit from a number of efficiencies, including co-location and sharing of studio and office facilities, sharing of local management, administrative and technical staff, and efficiencies in advertising, sales and newsgathering. Common ownership also results in reduced corporate overhead, cost of money efficiencies from having one loan instead of two, and

¹⁷ NAB Comments at 59; *see also* Nexstar Comments at 13 (explaining how "television broadcasters are incentivized to improve and increase local programming in order to garner larger audience shares and the consequent ability to increase advertising rates").

¹⁸ See Leflore Broad. Co. v. FCC, 636 F.2d 454, 460 (D.C. Cir. 1980) (recognizing that First Amendment requires that "[l]icensees must be permitted to exercise discretion in programming"); see infra Section III.

¹⁹ Nexstar Comments at 13.

reduced consulting expenses.²⁰ The benefits of joint ownership are particularly pronounced in small and mid-sized markets, where economies of scale are critical to broadcasters' ability to produce high-quality local programming.²¹

A presumptive prohibition on top four combinations is arbitrary and does not reflect the reality in many markets, particularly those that have one or two dominant stations and a number of "also rans." Nexstar's real-world experience is consistent with the data submitted by NAB, which shows that top four stations have widely divergent audience and revenue shares. Rather than strengthen competition in local markets, the Top-Four Prohibition often has the opposite effect, "prevent[ing] combinations necessary for struggling third and fourth (and some second) ranked stations to take advantage of economies of scale and make vital investments to ensure their future viability."

Even worse, the prohibition creates perverse economic incentives for broadcasters. The current rule effectively penalizes broadcasters for investing in programming that will best serve the local community by reducing the number of potential buyers of successful stations and, potentially, their corresponding market value. For example, because there are no restrictions on who can own the fifth ranked station in a market, that station could be of value to a number of potential buyers, including the owners of the top four stations. However, the fourth ranked station in the same market – despite investing heavily in local news and programming – may actually be less valuable because it cannot be acquired by an owner that can achieve economies of scale by

²⁰ *Id.* at 13-14; NAB Comments at 60 (describing how TV broadcasting is subject to "strong economies of both scale and scope").

²¹ See Gray Comments at 13; NAB Comments at 61.

²² NAB Comments at 71.

²³ *Id.* at 71-76.

²⁴ *Id.* at 76.

purchasing it. Thus, instead of incentivizing the bottom stations in a market to actively compete for viewers and advertising revenue, the Top-Four Prohibition encourages them to do just the opposite.

In the face of broadcasters' demonstrations that the Top-Four Prohibition is no longer justified, those supporting its maintenance advance false and misplaced claims about the effect of ownership of two top four stations on retransmission consent negotiations.²⁵ These arguments are misplaced and, in any event, analytically flawed.

As an initial matter, retransmission consent issues have no place in this proceeding, as the media ownership rules under review are aimed at preserving competition, localism, and diversity for the public, not for the protection of MVPDs. The broadcast/MVPD retransmission consent relationship is governed by its own set of rules, which require "good faith" and prohibit certain specific practices in negotiations.²⁶ Over the past decade, the FCC has repeatedly considered these rules governing retransmission consent and related rules for network nonduplication and syndicated exclusivity in proceedings in which many MVPDs and SIGs vociferously participated.²⁷ The Commission has fully considered their arguments and has declined to adopt additional rules relating to retransmission consent.²⁸ The FCC should not entertain efforts to use this proceeding as a proxy to seek reconsideration of its prior decisions.

²⁵ See Comments of American Television Alliance, MB Docket No. 18-349 at 9-13 (Apr. 29, 2019) ("ATVA Comments"); Comments of NCTA – The Internet & Television Association, MB Docket No. 18-349 at 2-5 (Apr. 29, 2019) (("NCTA Comments"); see also Independent Programmers' Comments at 6-8.

²⁶ 47 C.F.R. § 76.65(a)-(b); see 47 U.S.C. § 325(b)(3).

²⁷ See Media Bureau Seeks Comment on a Petition for Rulemaking to Amend the Commission's Rule Governing Retransmission Consent, MB Docket No. 10-71.

²⁸ See Blog Post by Tom Wheeler, FCC Chairman, FCC Blog (July 14, 2016, 10:37 a.m.), https://www.fcc.gov/news-events/blog/2016/07/14/update-our-review-good-faith-retransmission-consent-negotiation-rules (concluding the Commission's review in MB Docket No. 15-216).

More importantly, there is simply no record evidence to support the notion that ownership of multiple top four stations results in bad faith negotiations or increased retransmission consent fees or that any increase in fees charged to MVPDs is not offset by corresponding gains in public welfare through more robust local programming. Station groups that are most likely to own two stations in a market typically negotiate retransmission consent fees on a national, not a market-by-market, basis. In these circumstances, ownership of two top four stations in a particular market by definition has no impact on retransmission consent rates. Even if this were not the case, there is no evidence that ownership of a second top four station increases a broadcaster's negotiating leverage or the fees it would receive from MVPDs more than ownership of a single top four station.

The record also demonstrates that ownership of two top four stations promotes localism and diversity by providing more resources to cover local news and events, especially in small markets that otherwise lack the resources for multiple flourishing news operations.²⁹ The concerns expressed by some commenters about top four combinations causing a decrease in viewpoint diversity or decreased access to news, while couched in rhetoric, are substantively flawed.³⁰ First, as Nexstar explained in its initial comments, commonly owned stations have unique incentives to diversify their products to maximize audience share and revenue.³¹ Second, there is no logical reason why a top four station is necessarily better situated to promote localism. Although network viewership is the primary factor underlying a station's ranking among the top four stations, it has absolutely nothing to do with localism and local programming. Quite simply, by preventing combinations that would better serve their local communities and enhance public welfare, the Top-

²⁹ See Nexstar Comments at 12-13; Gray Comments at 10-11 (describing lack of resources for multiple news operations in small markets).

³⁰ See Independent Programmers' Comments at 9-10; LCCHR Comments at 2, 8.

³¹ Nexstar Comments at 10-11.

Four Prohibition does far more to harm diversity and localism than it can possibly do to promote these asserted public interest goals.

The substantial changes in the video distribution marketplace have eviscerated whatever basis there may have been to implement a Top-Four Prohibition in the past, rendering it no longer necessary in the public interest as a result of competition. Accordingly, the FCC is obligated in this proceeding to repeal it.

III. The FCC Should Not Interfere With Broadcasters' Discretion Regarding Programming Of Digital Multicast Channels, Commonly-Owned LPTV Stations, Or Satellite Stations.

A number of commenters call upon the Commission to unnecessarily inject itself into the programming decisions of local broadcasters by restricting the types of programming that broadcasters can include on their digital multicast streams, commonly-owned LPTV stations, or satellite stations.³² The FCC has traditionally declined to scrutinize broadcasters' exercise of editorial discretion over programming (at least in part due to First Amendment concerns) and it should continue to do so here.

Broadcasters are constantly looking for the most compelling content to provide on their free, over-the-air primary, multicast, and commonly owned LPTV channels, and a vibrant market exists for network affiliations and other programming. The major broadcast networks traditionally have expressed a strong preference to place their affiliations with full-power television stations for their primary channels, and the economics of reverse compensation to networks make this a necessity in most circumstances. Nevertheless, in some markets, there are too few full-power television stations to support all of the major networks. In these markets, local broadcasters have been able to fill the void by adding a network affiliation on a multicast channel or a commonly

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³² See ATVA Comments at 14-21; NCTA Comments at 8-12.

owned LPTV station.³³ While some MVPD and SIG commenters characterize this as an attempted "end-around" the multiple ownership rules, in reality, it allows local communities to receive broadcast programming that otherwise would be unavailable. In many cases, broadcasters pair these dual affiliations with expanded local news offerings that provide additional benefits to local viewers.³⁴

Any effort by the FCC to extend its television ownership regulations to multicast streams and LPTV stations based on their ratings or network affiliations raises serious First Amendment concerns. It is well settled that the Commission may not interfere with the programming decisions of licensees.³⁵ Yet, an FCC rule regulating multicast streams and LPTV stations based on their content (or a similar proxy, such as ratings) would do just that. The editorial decision by a broadcaster about what programming to transmit on a multicast stream or LPTV station is inherently content-based and does not relate in any way to the FCC's primary role as a regulator of the nation's scarce spectrum resources. Accordingly, the First Amendment constrains the Commission from interfering with a licensee's discretion to choose the programming that it believes serves the needs and interests of the members of its audience. The Commission also lacks a valid justification for departing from its prior decisions not to regulate ownership of multicast streams or LPTV stations.³⁶

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³³ See NAB Comments at 80; NPG Comments at 5.

³⁴ See NPG Comments at 6.

³⁵ See, e.g., License Renewal Applications of Certain Commercial Radio Stations Serving Philadelphia, Pennsylvania, Memorandum Opinion and Order, 8 FCC Rcd. 6400, 6401 (1993) (citing *Time-Life Broadcast, Inc.*, Memorandum Opinion and Order, 33 FCC 2d 1081, 1082 (1972); Office of Communications of United Church of Christ v. FCC, 707 F.2d 1413 (D.C. Cir. 1983)). Interfering in such matters would also impermissibly interject the Commission into broadcaster-network contractual relationships.

³⁶ See NAB Comments at 79-81; see also AT&T Corp. v. FCC, 236 F.3d 729, 736-37 (D.C. Cir. 2001).

Indeed, the Commission repeatedly has encouraged broadcasters to utilize their multicast streams and LPTV stations to provide a diversity of programming, including locally-affiliated network programming, to their communities. In developing its National Broadband Plan, the FCC recognized that combining two network affiliates onto a single channel through multicasting can be an efficient use of broadcast television spectrum.³⁷ Similarly, the Commission established LPTV as a flexible service designed to fill the country's "large, unsatisfied demand for television service," especially in rural areas.³⁸ At the same time, the FCC has expressly declined to adopt restrictive rules for multicast streams and LPTV stations.³⁹ It would thus contravene established FCC policy to adopt new programming restrictions for these services.

Although satellite stations are full-power stations, they primarily serve rural areas that a satellite "parent" station's signal cannot reach. In order to obtain a satellite waiver, a broadcaster must establish that the area served by the satellite is both "underserved" and unable to economically support an independently-owned, full service station. Restricting the programming that a broadcaster can transmit on a satellite station by subjecting such stations to the Top-Four Prohibition would similarly decrease the variety of programming available to viewers in underserved areas and contravene the public interest.

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³⁷ See OBI Technical Paper No. 3, Spectrum Analysis: Options for Broadcast Spectrum at 18 (June 2010), available at https://transition.fcc.gov/national-broadband-plan/spectrum-analysis-paper.pdf.

³⁸ Inquiry Into the Future Role of Low Power Television Broadcasting and Television Translators in the National Telecommunications System, Notice of Proposed Rulemaking, 82 FCC.2d 47 (1980).

³⁹ See 2014 Quadrennial Regulatory Review, Second Report and Order, 31 FCC Rcd. 9864 ¶ 71 (2016) (declining to modify ownership rules for multicast streams, observing that operating a multicast channel "does not typically produce the cost savings and additional revenue streams that can be achieved by owning a second in-market station"); In the Matter of Implementation of Section 309(j) of the Communications Act - Competitive Bidding for Commercial Broadcasting & Instructional Television Fixed Serv. Licenses Reexamination of the Policy Statement on Comparative Broad. Hearings Proposals to Reform the Commission's Comparative Hearing Process to Expedite the Resolution of Cases, Memorandum Opinion and Order, 14 FCC Rcd. 8724 ¶ 75 (1999) (recognizing that LPTV stations are non-attributable due to their "secondary status, limited coverage areas and restricted power").

⁴⁰ Streamlined Reauthorization Procedures for Assigned or Transferred Television Satellite Stations, Report and Order, MB Docket No. 18-63, FCC 19-17, at ¶¶ 2-3 (Mar. 12, 2019); see NAB Comments at 81.

The concerns expressed by some commenters that continuing to allow network affiliations on multicast streams, LPTV stations, or satellite stations will increase retransmission consent fees are also misplaced. First, as discussed above, the Commission has already considered and rejected the commenters' arguments about the retransmission marketplace in proceedings properly targeted to retransmission consent issues and this is not the proper forum for the FCC to revisit its prior findings. Second, as also explained above, there is no evidence that having multiple network affiliations results in increased retransmission consent fees at all, and certainly not on multicast streams and LPTV stations that lack must carry and/or network non-duplication rights. Third, there is no reason for the Commission to adopt any more stringent regulation for programming on multicast streams, LPTV stations, or satellite stations than for cable networks, which are not subject to any multiple ownership limitations.

Accordingly, there is no basis for the Commission to expand the local television ownership rule to non-attributable multicast streams, LPTV stations and satellite stations, and any effort to do so raises serious First Amendment concerns.

IV. <u>CONCLUSION.</u>

Fierce and intensifying competition in the local video distribution and advertising marketplaces is placing growing pressure on the ability of broadcasters to deliver the valued local news and information services that all commenters recognize broadcasters are uniquely positioned to deliver. The Commission should recognize that, as a result of these rapid changes in the marketplace, the Top-Four Prohibition is no longer necessary in the public interest and promptly remove this unnecessary barrier. And, consistent with its historic reluctance to regulate based on

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⁴¹ See ATVA Comments at 14-21; NCTA Comments at 8-12.

program content, the Commission should refrain from regulating the ownership of digital multicast streams, LPTV stations, and full-power satellite stations based upon their network affiliations.

Respectfully submitted,

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